

**Tennessee Board of Regents  
Austin Peay State University**

**For the Year Ended  
June 30, 2003**

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**STATE OF TENNESSEE**  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

March 16, 2004

The Honorable Phil Bredesen, Governor  
and

Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable Charles W. Manning, Chancellor  
Tennessee Board of Regents  
1415 Murfreesboro Road, Suite 350  
Nashville, Tennessee 37217  
and

Dr. Sherry L. Hoppe, President  
Austin Peay State University  
Clarksville, Tennessee 37043

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University, for the year ended June 30, 2003. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance disclosed certain deficiencies, which are detailed in the Results of the Audit section of this report. The university's administration has responded to the audit findings; the responses are included following each finding. The Division of State Audit will follow up the audit to examine the application of the procedures instituted because of the audit findings.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/th  
04/012

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Austin Peay State University**  
For the Year Ended June 30, 2003

## AUDIT OBJECTIVES

The objectives of the audit were to consider the university's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## INTERNAL CONTROL FINDING

### **Ineffective Monitoring and Tracking of Capital Purchases Led to the Reporting of an Inadequately Documented Equipment Addition**

The university could not provide adequate supporting documentation for a \$384,647.35 amount originally reported as a gift on the Schedule of Changes in Investment in Plant for the fiscal year ended June 30, 2003 (page 7).

## COMPLIANCE FINDING

### **Pell Payment Data Not Reported in a Timely Manner**

The university did not always report Pell disbursements to the Department of Education within the required 30 days (page 8).

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, which contains all findings, recommendations, and management comments, please contact

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**Audit Report  
Tennessee Board of Regents  
Austin Peay State University  
For the Year Ended June 30, 2003**

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**Tennessee Board of Regents  
Austin Peay State University  
For the Year Ended June 30, 2003**

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**INTRODUCTION**

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**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Austin Peay State University. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**BACKGROUND**

Austin Peay State University began as a two-year junior college and teacher-training institution. Created by an act of the General Assembly in 1927, the institution was named Austin Peay Normal School in honor of Governor Austin Peay. On February 4, 1943, the General Assembly changed the name to Austin Peay State College. In 1967, the State Board of Education conferred university status on the college.

The university grants the degrees of Associate of Applied Science, Associate of Science, Bachelor of Arts, Bachelor of Business Administration, Bachelor of Fine Arts, Bachelor of Science, Bachelor of Science in Education, Bachelor of Science in Nursing, Master of Arts, Master of Music, Master of Arts in Education, and Education Specialist.

**ORGANIZATION**

The governance of Austin Peay State University is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the university is the president, who is assisted and advised by members of the faculty and administrative staff.

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## AUDIT SCOPE

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The audit was limited to the period July 1, 2002, through June 30, 2003, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the year ended June 30, 2003, and for comparative purposes, the year ended June 30, 2002. Austin Peay State University is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

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## OBJECTIVES OF THE AUDIT

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The objectives of the audit were

1. to consider the university's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The university filed its report with the Department of Audit on June 30, 2003. A follow-up of the prior audit finding was conducted as part of the current audit.

### RESOLVED AUDIT FINDING

The current audit disclosed that the university has corrected the previous audit finding concerning financial aid refunds being promptly returned.

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## RESULTS OF THE AUDIT

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### AUDIT CONCLUSIONS

#### Internal Control

As part of the audit of the university's financial statements for the year ended June 30, 2003, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. A reportable condition, along with a recommendation and management's response, is detailed in the findings and recommendations section of this report. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. An immaterial instance of noncompliance, along with a recommendation and management's response, is included in the findings and recommendations section of this report.

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the university's financial statements.

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## **OBSERVATIONS AND COMMENTS**

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The university is the sole beneficiary of the Austin Peay State University Foundation, which is a private, nonprofit foundation. The foundation's accounts are in the agency funds of the university. We reviewed limited areas of the foundation's activities and discussed the activities with pertinent university and foundation officials, and nothing came to our attention in those limited areas that indicated there were any problems related to the foundation.



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**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

November 14, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the year ended June 30, 2003, and have issued our report thereon dated November 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the university's financial statements are free of material misstatement, we performed tests of the university's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note a certain immaterial instance of noncompliance that we have included in the Findings and Recommendations section of this report. We also noted certain other less significant instances of noncompliance, which we have reported to the university's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the university's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the university's ability to record, process, summarize, and report financial data consistent with management's assertions in the financial statements.

The following reportable condition was noted:

- Ineffective monitoring and tracking of capital purchases led to the reporting of an inadequately documented equipment addition.

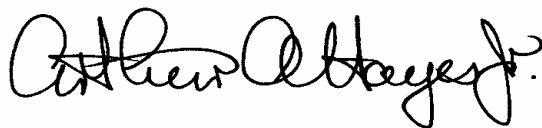
This condition is described in the Findings and Recommendations section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

We also noted certain matters involving the internal control over financial reporting, which we have reported to management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA  
Director

AAH/th

## FINDINGS AND RECOMMENDATIONS

### 1. **Ineffective monitoring and tracking of capital purchases led to the reporting of an inadequately documented equipment addition**

#### Finding

Management could not provide adequate supporting documentation for a gift reported on the Schedule of Changes in Investment in Plant for the fiscal year ended June 30, 2003. The gift of \$384,647.35 included 36 items of equipment. Three of the items, valued at \$30,192.23, were determined to be purchases made by the institution that were properly capitalized. Management provided three different explanations as to the remaining 33 items of equipment valued at \$354,455.12. The first explanation was that the items were related to a capital gift from Aramark as part of the food service contract. Based on a review of invoices provided to the institution by Aramark, this explanation was disproved. The second explanation was that the items had been improperly expensed in a prior year. However, after an extensive search of university center transactions at the central office of the Tennessee Board of Regents (TBR) for fiscal years 2003 and 2002, this explanation could not be confirmed. The third explanation was that the items were improperly capitalized as part of the university center building. Once again, after an extensive search of university center transactions at the central office of the TBR for fiscal years 2003 and 2002, this explanation could not be confirmed.

During the process of obtaining an explanation for the 33 items, a list of quotes from American Food Service Company was provided as support. The amounts written on the list could not be confirmed as being provided by a third party. Also, several discrepancies were noted between the list of quotes and the equipment listing such as items being capitalized twice, items being capitalized that did not meet the \$5,000 capitalization threshold, one returned item being capitalized, and items that met the \$5,000 capitalization threshold not being capitalized. In addition to the problems noted with the list of quotes, a review of the equipment listing revealed that some equipment had not been depreciated because the wrong depreciation method code was entered into the system.

The duties of monitoring and tracking capital purchases and the depreciation of those items have been contracted on a part-time basis with an outside person. The Assistant Director of Purchasing would usually perform these duties; however, this position has been vacant for some time. The absence of a full-time person and a communication breakdown between TBR, the purchasing office, and the business office led to the problems noted in this finding.

Business office personnel have started researching the gift amount to determine if the addition was previously recorded and what action needs to be taken. Because of the

uncertainty as to the correct amount, no adjustment was made to the financial statements. However, the amount involved is immaterial to the financial statements.

### **Recommendation**

Management should continue to research the amount originally reported as a gift and determine what action needs to be taken. In addition, management should assign the responsibilities of monitoring and tracking capital purchases and depreciation to an employee on a full-time basis.

### **Management's Comment**

We concur with the recommendation. The items in question will be researched thoroughly and the necessary adjustments made to record them properly. A full-time employee will be assigned the responsibility for monitoring and tracking capital purchases and depreciation.

## **2. Pell Payment Data not reported in a timely manner**

### **Finding**

Procedures related to Pell Payment Data Reporting need to be improved. Of 46 students tested to determine if Pell payments were reported to the Department of Education within 30 days from the date of disbursement, payments to five students (10.87%) were not reported in a timely manner.

According to the *Student Financial Aid Handbook*, Volume 3, Chapter 3 – Pell Reporting, Reporting Deadline:

The institution must submit a disbursement record within 30 days of the date you become aware of a Pell Grant change (for example, a new recipient or an increased award). The 30-day reporting requirement ensures that federal funds won't remain at a school when its students don't need the funds. Schools that don't submit required records on time, and schools that submit incomplete records, will have their Pell allocations reduced and may be fined.

### **Recommendation**

The Financial Aid Director should ensure that the Pell Payment Data is reported within the required time frames.

### **Management's Comment**

We concur with the finding and recommendation. A master reporting calendar has been established and computer programs are being developed that will insure Pell payment data is reported in a timely manner.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
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NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 401-7897  
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**Independent Auditor's Report**

November 14, 2003

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statements of net assets of Austin Peay State University, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2003, and June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the university's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Austin Peay State University, as of June 30, 2003, and June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

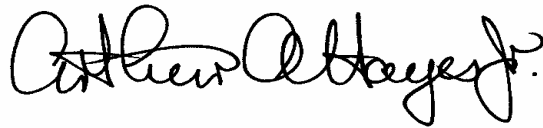
The Honorable John G. Morgan  
November 14, 2003  
Page Two

As discussed in Note 12, during the year ended June 30, 2002, the university implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The university also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 11 through 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003, on our consideration of the university's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA  
Director

AAH/th

## **Austin Peay State University Management's Discussion and Analysis**

This section of Austin Peay State University's annual financial report presents a discussion and analysis of the financial performance of the university during the fiscal year ended June 30, 2003. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with the financial statements and notes. The financial statements, notes, and this discussion are the responsibility of management.

### **Using This Annual Report**

This report consists of three basic financial statements. The Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows provide information on Austin Peay State University as a whole and present a long-term view of the university's finances.

### **The Statement of Net Assets**

The Statement of Net Assets presents the financial position of the university at the end of the fiscal year and includes all assets and liabilities of the university. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the university. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the university's equity in property, plant, and equipment owned by the university. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditure by the university but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

# STATEMENT OF NET ASSETS

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
<b>Assets:</b>		
Current assets	\$ 15,774	\$ 15,305
Capital assets, net	94,165	84,121
Other assets	23,118	17,251
<b>Total assets</b>	<u>\$ 133,057</u>	<u>\$ 116,677</u>
<b>Liabilities:</b>		
Current liabilities	\$ 13,181	\$ 11,327
Noncurrent liabilities	30,737	20,298
<b>Total liabilities</b>	<u>\$ 43,918</u>	<u>\$ 31,625</u>
<b>Net assets:</b>		
Invested in capital assets, net of related debt	\$ 65,159	\$ 65,265
Restricted – expendable	2,128	1,953
Restricted – nonexpendable	2,787	2,593
Unrestricted	19,065	15,241
<b>Total net assets</b>	<u>\$ 89,139</u>	<u>\$ 85,052</u>

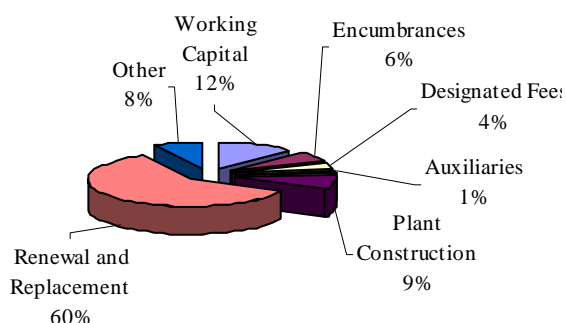
- Current assets consist of cash, short-term investments, accounts receivable, inventories, prepaid expenses, and accrued interest. Current cash of \$10,293,000 represents 65% of current assets. Current cash is used to pay current liabilities and prior-year encumbrances and to provide operating funds for fiscal year 2004. There was an increase of over \$1 million in current cash due primarily to an approximately \$800,000 increase in prior-year encumbrances and a curtailment of expenditures during 2003 due to the uncertain state appropriation situation.
- Capital assets of \$94,165,000 comprise 80% of the noncurrent assets. Capital assets increased over \$10 million during fiscal year 2003 due to the ongoing construction of the Hand Village student apartments and the new family housing units.
- Current liabilities of \$13,181,000 is an increase of \$1,854,000 primarily due to pledges receivable resulting from a major capital campaign begun in the 2003 fiscal year. Noncurrent liabilities increased by over \$10 million to \$30,737,000. This large increase in noncurrent liabilities reflects the debt related to the current construction projects.

Many of the university's unrestricted net assets have been designated or reserved for specific purposes such as renewal and replacement of equipment and facilities, working capital, prior-year encumbrances, funds collected for designated fees such as technology access and student activity fees, plant construction, and other projects. The following graph shows the allocations:

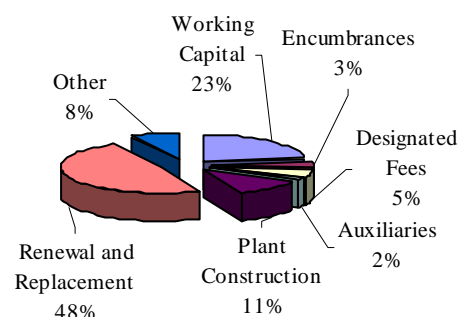
## UNRESTRICTED NET ASSETS

(In thousands of dollars)

	<u>2003</u>	<u>2002</u>
Working capital	\$ 2,337	\$ 3,545
Encumbrances	1,217	484
Designated fees	753	741
Auxiliaries	186	269
Plant construction	1,660	1,699
Renewal and replacement	11,426	7,330
Other	1,486	1,222
	<u>\$ 19,065</u>	<u>\$ 15,290</u>



2003



2002

- An allocation for inventories is a component of working capital. On July 1, 2002, the institution contracted with Follett Higher Education Group to operate the bookstore, and the institution sold the bookstore inventory. As a result of this sale, the overall inventory decreased from \$900,000 to \$160,000. Working capital was also affected by a decrease in accounts receivable of approximately \$200,000.
- The increase in encumbrances was the result of budget concerns. Many purchase orders were held until the end of the year. Once it was determined that sufficient funds were available, the purchase orders were released, but there was not enough time for the goods to be received before the end of the fiscal year.
- The renewal and replacement category increased significantly for two reasons. The proceeds from the sale of the bookstore inventory were moved to renewal and replacement for use in future auxiliary projects. Significant amounts were moved to the computer, telephone, and stadium renewal and replacement accounts in preparation for some pending projects. In the very near future, the institution will migrate to a new administrative software system, have to replace the telephone switch, and replace the artificial turf and track at the stadium.

## The Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets present the operating results of the university, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

### STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
<b>Operating revenues:</b>		
Net tuition and fees	\$ 18,970	\$ 16,462
Auxiliary	3,636	5,104
Grants and contracts	11,643	10,307
Other	1,856	1,285
<b>Total operating revenues</b>	<b>\$ 36,105</b>	<b>\$ 33,158</b>
Operating expenses	\$ 65,988	\$ 66,537
<b>Operating loss</b>	<b>\$ (29,883)</b>	<b>\$ (33,379)</b>
<b>Nonoperating revenues and expenses:</b>		
State appropriations	\$ 31,156	\$ 30,484
Gifts	781	933
Investment income	784	447
Other revenues and expenses	(1,351)	(754)
<b>Total nonoperating revenues and expenses:</b>	<b>\$ 31,370</b>	<b>\$ 31,110</b>
<b>Income (loss) before other revenues, expenses, gains, or loss</b>	<b>\$ 1,487</b>	<b>\$ (2,269)</b>
<b>Other revenues, expenses, gains, or losses:</b>		
Capital appropriations	\$ 2,453	\$ 4,402
Capital grants and gifts	-	560
Additions to permanent endowments	146	63
Other	-	(116)
<b>Total other revenues, expenses, gains, or losses</b>	<b>\$ 2,599</b>	<b>\$ 4,909</b>
<b>Increase (decrease) in net assets</b>	<b>\$ 4,086</b>	<b>\$ 2,640</b>
Net assets at beginning of year, as originally reported	\$ 85,053	\$ 141,635
Cumulative effect of changes in accounting principle	\$ -	\$ (59,222)

Net assets at beginning of period, restated  
Net assets at end of year

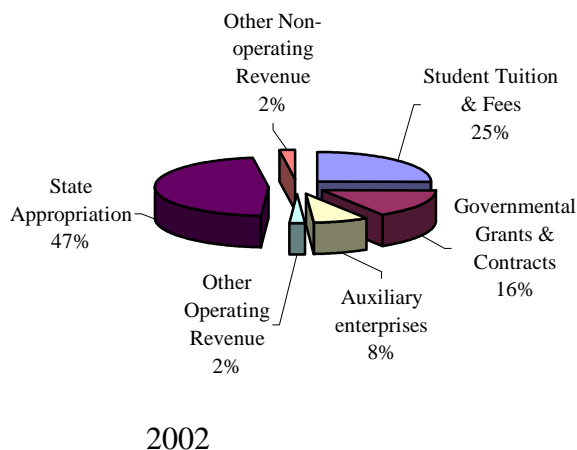
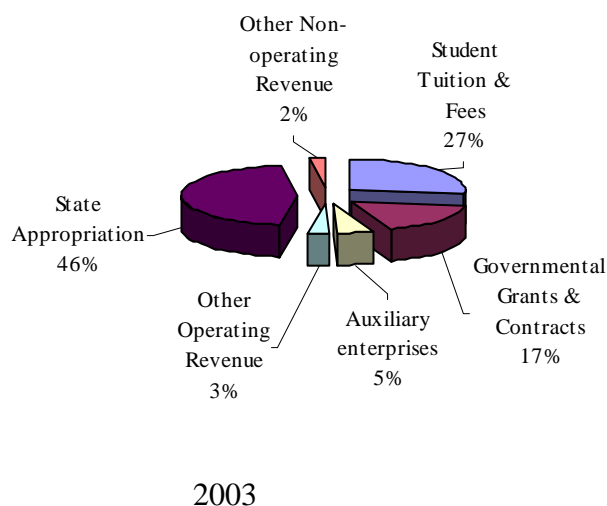
\$	<b>85,053</b>	\$	<b>82,413</b>
\$	<b>89,139</b>	\$	<b>85,053</b>

### Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the university's operating activities for the year ended June 30, 2003, and the year ended June 30, 2002, (amounts are presented in thousands of dollars).

#### REVENUE BY SOURCE (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
<i>Operating revenue</i>		
Student tuition & fees	\$18,970	\$16,462
Governmental grants & contracts	11,643	10,307
Auxiliary enterprises	3,636	5,104
Other operating revenue	1,856	1,286
<i>Nonoperating revenue</i>		
State appropriation	31,156	30,484
Other nonoperating revenue	1,565	1,380
	<u>\$68,826</u>	<u>\$65,023</u>



- Total revenues increased by about 6%. This increase was primarily due to the increase in student tuition and fees resulting from a 5% increase in enrollment and a 7.5% fee increase.

- Due to the state's financial crisis, the state appropriation declined from 47% to 46% of the total revenue.
- Student tuition and fees increased from 25% to 27% of the total revenues. This was due to the enrollment and fee increase.
- The various federal financial aid programs make up the majority of the governmental grants and contracts category. This category also increased as a percentage of total revenue.

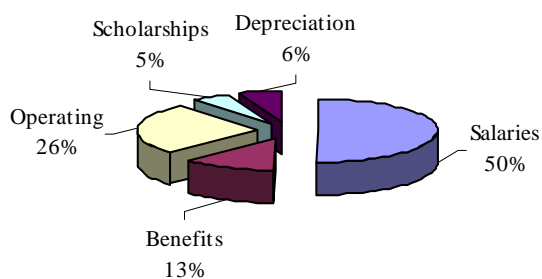
### Expenses

Operating expenses can be displayed in two formats, natural classification and program classification. Both formats are displayed below.

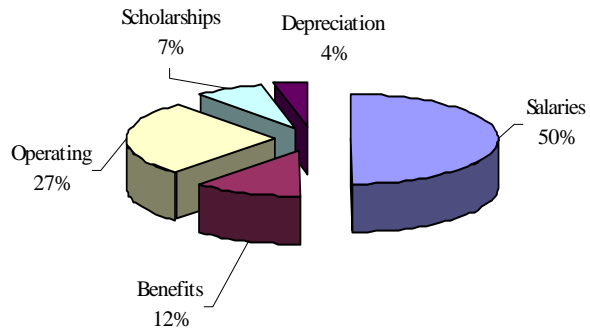
#### *Natural Classification*

#### EXPENSES (in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Salaries	\$33,245	\$33,074
Benefits	8,611	7,932
Operating	14,274	18,149
Scholarships	6,040	4,939
Depreciation	3,818	2,443
	<u>\$65,988</u>	<u>\$66,537</u>



2003



2002

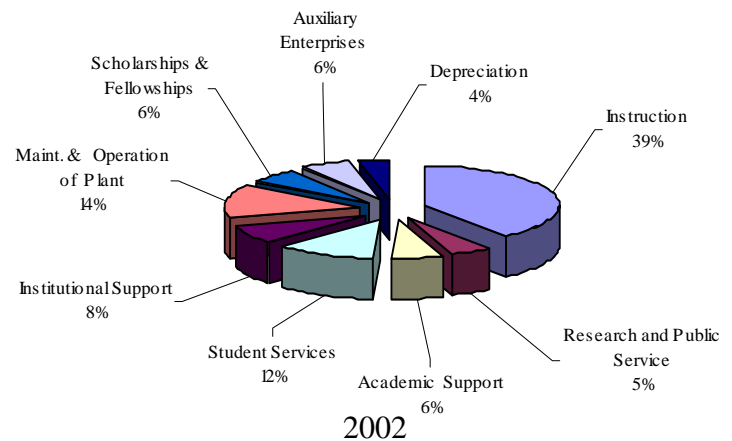
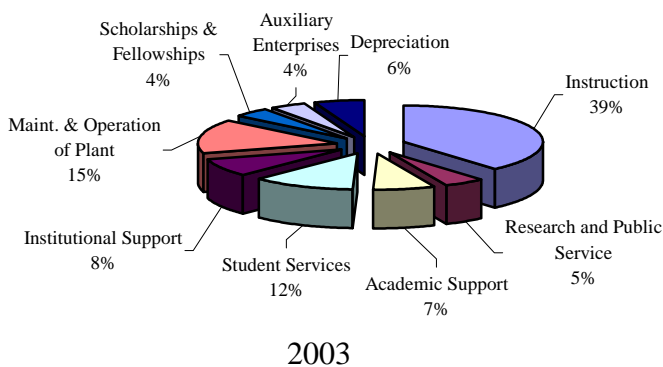
- Total expenses decreased slightly due to the concern about the state budget situation.
- Salaries and benefits increased slightly due to a 3% across-the-board pay increase (effective January 1, 2003) and an increase in insurance costs.

- Operating expenditures declined due to the concern over the budget.
- Scholarship expenditures declined due to both the concern over the budget and the extremely low interest rates that reduced earnings on endowments and restricted funds.
- The increase in depreciation was primarily due to over \$50,000,000 of new buildings being placed into service toward the end of the previous fiscal year.

### *Program Classification*

#### EXPENSES (In thousands of dollars)

	<u>2003</u>	<u>2002</u>
Instruction	\$ 25,737	\$ 26,445
Research and public service	3,051	3,232
Academic support	4,873	4,103
Student services	8,628	7,975
Institutional support	5,314	5,059
Maint. & operation of plant	7,699	9,231
Scholarships & fellowships	4,717	4,038
Auxiliary enterprises	2,151	4,011
Depreciation	3,818	2,443
	<u>\$ 65,988</u>	<u>\$ 66,537</u>



- Auxiliary enterprises declined by 35% over the previous year. With the bookstore being outsourced at the beginning of fiscal year 2003, the expenses consisted primarily of

utilities and plant costs. The previous year when the university operated the bookstore, all operating expenses and cost of goods sold were included in the auxiliary expenses.

- Depreciation reflects the new buildings recently opened. The other areas reflected the tight budget with some fluctuations due to special projects and initiatives.

## The Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the university's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

### STATEMENT OF CASH FLOWS

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
<b>Cash provided (used) by:</b>		
Operating activities	\$ (25,193)	\$ (29,886)
Noncapital financing activities	32,700	31,170
Capital and related financing activities	(2,598)	(910)
Investing activities	727	941
<b>Net increase (decrease) in cash</b>	<u>\$ 5,636</u>	<u>\$ 1,315</u>
<b>Cash, beginning of year</b>	<u>\$ 19,806</u>	<u>\$ 18,491</u>
<b>Cash, end of year</b>	<u><u>\$ 25,442</u></u>	<u><u>\$ 19,806</u></u>

- The loss in the operating activities category is much less than the prior year due to the increased inflow from student tuition and fees and the reduced outflow in expenses due to the concerns about the budget situation.
- The major source in the noncapital financing category is the state appropriation. This area changed very little from the prior year.
- The institution's liquidity improved during the past year. Contributing factors include higher tuition and fee revenue than originally budgeted (deployment of troops to Iraq from Fort Campbell did not have the negative impact anticipated) and a spending slowdown due to uncertainty over the state's revenue situation.

## Capital Asset and Debt Administration

### *Capital Assets*

At June 30, 2003, Austin Peay State University had \$94,164,860.43 invested in capital assets, net of accumulated depreciation of \$47,312,815.72. Depreciation charges totaled \$3,818,886.86 for the current fiscal year. Details of these assets are shown below.

#### SCHEDULE OF CAPITAL ASSETS, NET OF DEPRECIATION

(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Land	\$ 3,080	\$ 2,758
Land improvements and infrastructure	1,176	1,298
Buildings	70,182	70,804
Equipment	2,241	2,510
Library holdings	2,363	2,285
Projects in progress	<u>15,123</u>	<u>4,465</u>
	<u>\$ 94,165</u>	<u>\$84,120</u>

During the past year, construction began on two major projects. The new Hand Village student apartments will have 300 beds and will cost approximately \$10,000,000. The new family housing units will add 16 apartments and cost approximately \$2,300,000. Both of these projects are scheduled to be completed by fall 2003. Funds for both of these projects will come from auxiliary revenue.

Several other projects are still in progress. A dormitory infrastructure upgrade will cost approximately \$1,500,000 and will be funded by auxiliary revenue. A project involving reroofing several buildings will cost approximately \$1,000,000 and is funded by state appropriation. The old Harvill Cafeteria is being renovated for use as a bookstore at a cost of approximately \$800,000 from auxiliary revenue. A Dunn Center brick replacement project is under way at a cost of \$880,000 from state appropriations. All of these projects should be completed in fiscal year 2004.

More detailed information about the university's capital assets is presented in Note 6 to the financial statements.

### *Debt*

At June 30, 2003, the university had \$28,974,931 in debt outstanding. The table below summarizes these amounts by type of debt instrument.

SCHEDULE OF DEBT  
(in thousands of dollars)

	<u>2003</u>	<u>2002</u>
Commercial Paper	\$ 11,802	\$ 1,040
Bonds	17,082	17,682
Notes	91	134
	<u>\$ 28,975</u>	<u>\$ 18,856</u>

During the past fiscal year, commercial paper in excess of \$10,000,000 was issued to finance the current projects. TSSBA will replace the commercial paper with bonds as the projects are completed. Fitch, Moody's Investors Service, and Standard & Poor's have rated the bonds AA, Aa3, and AA, respectively. The commercial paper is rated P-1 and A-1+ by Moody's Investors Service and Standard & Poor's, respectively.

More detailed information about the university's long-term liabilities is presented in Note 7 to the financial statements.

### **Economic Factors That Will Affect the Future**

The state budget crisis continues to be a major concern. The Tennessee Board of Regents approved a 14% fee increase to primarily offset inflationary costs and a small portion of the state appropriation reduction. There does not appear to be any improvement in appropriations likely in the immediate future.

The current stock market and interest rate situation has had an adverse effect on the endowment accounts. The earnings from the endowments are used to fund scholarships, and the amount available has declined significantly.

On the bright side, the enrollment outlook is good. The university is expecting a gradual increase in enrollment to a level that will maximize the use of all the campus resources.

### **Requests for Information**

This financial report is designed to provide a general overview of the institution's finances for all those with an interest in the university's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to Mitch Robinson, Vice President for Finance and Administration, APSU, Box 4635, Clarksville, TN 37044.

**TENNESSEE BOARD OF REGENTS  
AUSTIN PEAY STATE UNIVERSITY  
STATEMENTS OF NET ASSETS  
JUNE 30, 2003, AND JUNE 30, 2002**

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>ASSETS</b>		
Current assets:		
Cash (Notes 2 and 3)	\$ 10,292,704.04	\$ 8,892,169.67
Short-term investments (Note 4)	1,000,000.00	1,000,000.00
Accounts, notes, and grants receivable (net) (Note 5)	3,590,642.63	3,700,593.35
Inventories (at lower of cost or market)	159,383.68	942,873.09
Prepaid expenses and deferred charges	511,105.93	529,225.20
Accrued interest receivable	156,471.32	180,467.00
Other assets	63,551.97	59,563.24
Total current assets	<u>15,773,859.57</u>	<u>15,304,891.55</u>
Noncurrent assets:		
Cash (Notes 2 and 3)	15,149,531.24	10,914,054.44
Investments (Note 4)	4,914,777.46	4,834,567.61
Accounts, notes, and grants receivable (net) (Note 5)	3,053,500.09	1,453,973.40
Capital assets (net) (Note 6)	94,164,860.43	84,120,824.96
Total noncurrent assets	<u>117,282,669.22</u>	<u>101,323,420.41</u>
Total assets	<u>133,056,528.79</u>	<u>116,628,311.96</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	855,291.21	1,162,856.89
Accrued liabilities	1,678,859.07	1,645,467.80
Student deposits	131,840.00	135,720.00
Deferred revenue	3,434,453.98	1,438,367.82
Compensated absences (Note 7)	371,728.56	983,032.05
Accrued interest payable	213,404.54	222,710.11
Long-term liabilities, current portion (Note 7)	666,618.41	611,782.62
Deposits held in custody for others	5,569,930.76	4,889,903.46
Due to grantors (Note 7)	112,423.47	115,510.05
Other liabilities	146,578.78	121,864.23
Total current liabilities	<u>13,181,128.78</u>	<u>11,327,215.03</u>
Noncurrent liabilities:		
Compensated absences (Note 7)	1,055,800.49	446,556.04
Long-term liabilities (Note 7)	28,308,313.37	18,195,729.66
Due to grantors (Note 7)	1,372,271.52	1,606,208.50
Total noncurrent liabilities	<u>30,736,385.38</u>	<u>20,248,494.20</u>
Total liabilities	<u>43,917,514.16</u>	<u>31,575,709.23</u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	65,159,328.79	65,264,520.05
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	2,787,366.15	2,593,405.14
Expendable:		
Scholarships and fellowships	596,632.66	495,175.21
Research	205,914.11	181,920.25
Instructional department uses	215,766.34	217,207.46
Loans	519,119.43	504,176.12
Debt service	58,407.52	62,050.78
Capital Projects	-	48,792.63
Other	531,352.71	443,745.13
Unrestricted (Note 8)	19,065,126.92	15,241,609.96
Total net assets	<u>\$ 89,139,014.63</u>	<u>\$ 85,052,602.73</u>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS  
AUSTIN PEAY STATE UNIVERSITY  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002**

	Year Ended June 30, 2003	Year Ended June 30, 2002
<b>REVENUES</b>		
Operating revenues:		
Student tuition and fees (net of scholarship allowances of \$6,388,854.00 for the year ended June 30, 2003, and \$5,717,939.00 for the year ended June 30, 2002)	\$ 18,969,747.33	\$ 16,462,257.04
Governmental grants and contracts	11,642,870.46	10,306,863.33
Sales and services of educational departments	969,937.73	928,120.98
Auxiliary enterprises:		
Residential life (net of scholarship allowances of \$83,571.00 for the year ended June 30, 2003, and \$68,984.00 for the year ended June 30, 2002)	2,768,868.03	2,474,014.44
Bookstore	630,319.23	2,367,621.92
Food service	171,611.27	112,212.63
Other auxiliaries	65,234.30	149,058.57
Interest earned on loans to students	25,014.76	15,766.40
Other operating revenues	861,340.15	341,582.33
Total operating revenues	<u>36,104,943.26</u>	<u>33,157,497.64</u>
<b>EXPENSES</b>		
Operating expenses (Note 17)		
Salaries and wages	33,244,707.04	33,074,407.99
Benefits	8,610,520.18	7,932,161.76
Utilities, supplies, and other services	14,273,946.79	18,148,718.58
Scholarships and fellowships	6,039,766.27	4,939,087.52
Depreciation expense	3,818,886.86	2,442,956.32
Total operating expenses	<u>65,987,827.14</u>	<u>66,537,332.17</u>
Operating loss	<u>(29,882,883.88)</u>	<u>(33,379,834.53)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	31,156,178.60	30,483,500.00
Gifts	781,293.63	933,073.26
Investment income	783,573.93	447,229.33
Interest on capital asset-related debt	(1,116,119.25)	(582,240.28)
Other nonoperating revenues (expenses)	(234,944.75)	(172,035.41)
Net nonoperating revenues	<u>31,369,982.16</u>	<u>31,109,526.90</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>1,487,098.28</u>	<u>(2,270,307.63)</u>
Capital appropriations	2,453,178.39	4,402,060.75
Capital grants and gifts	-	560,607.58
Additions to permanent endowments	146,135.23	62,533.23
Other	-	(115,508.58)
Total other revenues, expenses, gains, or losses	<u>2,599,313.62</u>	<u>4,909,692.98</u>
Increase (decrease) in net assets	<u>4,086,411.90</u>	<u>2,639,385.35</u>
<b>NET ASSETS</b>		
Net assets - beginning of year, as originally reported	85,052,602.73	141,634,568.64
Cumulative effects of changes in accounting principle (Note 12)		
Adoption of capitalization criteria for buildings and additions	-	(17,329,565.75)
Adoption of depreciation for capital assets	-	(41,050,972.54)
Deferred revenue recognition	-	379,586.47
Other	-	(1,220,399.44)
Net assets - beginning of year, as restated	<u>85,052,602.73</u>	<u>82,413,217.38</u>
Net assets - end of year	<u>\$ 89,139,014.63</u>	<u>\$ 85,052,602.73</u>

The notes to the financial statements are an integral part of this statement.

**TENNESSEE BOARD OF REGENTS  
AUSTIN PEAY STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002**

	Year Ended <u>June 30, 2003</u>	Year Ended <u>June 30, 2002</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 19,125,318.34	\$ 16,137,212.63
Grants and contracts	11,581,770.39	11,258,386.81
Sales and services of educational activities	970,282.98	928,965.47
Payments to suppliers and vendors	(13,721,489.70)	(17,437,390.71)
Payments to employees	(33,209,586.54)	(33,012,127.72)
Payments for benefits	(8,526,183.76)	(8,023,513.15)
Payments for scholarships and fellowships	(6,039,766.28)	(4,939,087.52)
Loans issued to students and employees	(397,278.50)	(471,818.40)
Collection of loans from students and employees	437,936.50	465,951.66
Interest earned on loans to students	25,014.76	15,766.40
Auxiliary enterprise charges:		
Residence halls	2,688,558.70	2,477,491.90
Bookstore	754,559.34	2,147,401.59
Food services	171,611.27	112,212.63
Other auxiliaries	65,234.30	149,058.57
Other receipts (payments)	880,926.51	305,313.66
Net cash used by operating activities	<u>(25,193,091.69)</u>	<u>(29,886,176.18)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	31,352,578.60	30,193,500.00
Gifts and grants received for other than capital or endowment purposes	530,458.48	767,225.82
Private gifts for endowment purposes	146,135.23	62,533.23
Federal student loan receipts	19,742,032.75	-
Federal student loan disbursements	(19,742,032.75)	-
Changes in deposits held for others	670,764.80	147,318.33
Net cash provided by noncapital financing activities	<u>32,699,937.11</u>	<u>31,170,577.38</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from capital debt	10,903,968.79	17,489,953.66
Capital - state appropriations	2,457,678.39	4,397,560.75
Purchases of capital assets and construction	(13,862,922.33)	(7,395,645.85)
Principal paid on capital debt and lease	(736,549.29)	(14,629,773.79)
Interest paid on capital debt and lease	(1,125,424.82)	(484,430.79)
Other capital and related financing receipts (payments)	(234,944.75)	(287,543.99)
Net cash used by capital and related financing activities	<u>(2,598,194.01)</u>	<u>(909,880.01)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sales and maturities of investments	2,108,994.52	1,008,075.34
Income on investments	730,062.56	933,060.98
Purchases of investments	(2,111,697.32)	(1,000,000.00)
Net cash provided by investing activities	<u>727,359.76</u>	<u>941,136.32</u>
Net increase in cash	5,636,011.17	1,315,657.51
Cash - beginning of year	19,806,224.11	18,490,566.60
Cash - end of year	<u>\$ 25,442,235.28</u>	<u>\$ 19,806,224.11</u>

**TENNESSEE BOARD OF REGENTS  
AUSTIN PEAY STATE UNIVERSITY  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2003, AND JUNE 30, 2002**

	Year Ended <u>June 30, 2003</u>	Year Ended <u>June 30, 2002</u>
<b>Reconciliation of operating loss to net cash used by operating activities:</b>		
Operating loss	\$ (29,882,883.88)	\$ (33,379,834.53)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	3,818,886.86	2,442,956.32
Gifts in-kind	234,906.21	173,711.28
Change in assets and liabilities:		
Receivables, net	197,272.63	(161,454.84)
Inventories	783,489.41	158,996.58
Prepaid/deferred items	18,119.27	(438,826.15)
Accounts payable	(307,565.68)	173,431.12
Accrued liabilities	(178,917.74)	575,116.55
Deferred revenue	129,540.27	494,979.37
Deposits	(3,880.00)	5,310.00
Compensated absences	(2,059.04)	69,438.12
Net cash used by operating activities	\$ <u>(25,193,091.69)</u>	\$ <u>(29,886,176.18)</u>
<b>Noncash transactions</b>		
In kind gifts	\$ 234,906.21	\$ 734,318.86
Unrealized gain (loss) on investments	43,552.78	(198,488.31)

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents  
Austin Peay State University  
Notes to the Financial Statements  
June 30, 2003, and June 30, 2002**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The university is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

**Basis of Presentation**

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the university's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

**Basis of Accounting**

For financial statement purposes, the university is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not

**Tennessee Board of Regents  
Austin Peay State University  
Notes to the Financial Statements (Cont.)  
June 30, 2003, and June 30, 2002**

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conflict with or contradict guidance of the Governmental Accounting Standards Board. The university has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The university has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the university include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; (3) bond issuance costs; (4) interest on capital asset-related debt; and (5) gifts.

When both restricted and unrestricted resources are available for use, generally it is the university's policy to use the restricted resources first.

### **Inventories**

Inventories are valued at the lower of cost or market.

### **Compensated Absences**

The university's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

### **Capital Assets**

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

**Tennessee Board of Regents  
Austin Peay State University  
Notes to the Financial Statements (Cont.)  
June 30, 2003, and June 30, 2002**

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A capitalization threshold of \$100,000 is used for buildings, and \$50,000 is used for infrastructure. Equipment is capitalized when the unit acquisition cost is \$5,000 or greater. The capitalization threshold for additions and improvements to buildings and land is set at \$50,000.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

**Austin Peay State University Foundation**

The university is the sole beneficiary of the Austin Peay State University Foundation. A board independent of the university controls this private, nonprofit foundation. The university handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the university's statement of net assets.

**Net Assets**

The university's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the university's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Nonexpendable restricted net assets – Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may be expendable or added to principal.

Expendable restricted net assets – Expendable restricted net assets include resources which the university is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the university, and may be used at the discretion of the university to meet current expenses for any purpose. The

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auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

**Scholarship Discounts and Allowances**

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the university and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the university's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the university has recorded a scholarship discount and allowance.

**NOTE 2. CASH**

This classification includes demand deposits and petty cash on hand. At June 30, 2003, cash consisted of \$845,950.49 in bank accounts, \$11,535.00 of petty cash on hand, \$24,282,884.56 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, \$299,636.73 in LGIP deposits for capital projects, and \$2,228.50 in other cash. At June 30, 2002, cash consisted of \$494,788.42 in bank accounts, \$11,435.00 of petty cash on hand, \$18,028,629.84 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$1,271,370.85 in LGIP deposits for capital projects.

LGIP deposits for capital projects - Payments related to the university's capital projects are made by the State of Tennessee's Department of Finance and Administration. The university's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the university for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

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**NOTE 3. DEPOSITS**

Some of the university's deposits are in financial institutions that participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 2003, the carrying amount of the university's deposits in financial institutions participating in the collateral pool was \$1,345,590.49, and the bank balance including accrued interest was \$2,445,937.74. The bank balance was insured. At June 30, 2002, the carrying amount of the university's deposits in financial institutions participating in the collateral pool was \$994,788.42, and the bank balance including accrued interest was \$2,493,992.27. The bank balance was insured

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

Deposits with financial institutions are required to be categorized to indicate the level of risk assumed by the university. Category 1 consists of deposits that are insured or collateralized with securities held by the university or by its agent in the university's name. Category 2 consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the university's name. Category 3 deposits are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the university's name.

At June 30, 2003, the carrying amount of the university's deposits was \$1,957,647.81, and the bank balance including accrued interest was \$3,062,210.95. Of the bank balance, \$3,062,210.95 was category 1. At June 30, 2002, the carrying amount of the

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university's deposits was \$1,603,782.94, and the bank balance, \$3,135,605.60. Of the bank balance, \$3,135,605.60 was category 1.

The university also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**NOTE 4. INVESTMENTS**

The university is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the university and that endowment investments be prudently diversified. The Austin Peay State University Foundation is authorized to invest funds in accordance with its board of directors' policies.

All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The university's/foundation's investments are categorized below to indicate the level of risk assumed by the university/foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the university/foundation or its agent in the university's/foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's/counterparties' trust department or agent in the university's/foundation's name. Category 3 consists of uninsured and unregistered investments

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for which the securities are held by the counterparty or by its trust department or agent but not in the university's/foundation's name.

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Category 1:		
Corporate stocks	\$ 416.00	\$ 10,232.00
Investments not susceptible to credit risk categorization:		
Mutual funds	4,802,664.14	4,715,341.09
Certificates of deposit classified as investments	<u>1,111,697.32</u>	<u>1,108,994.52</u>
Total	<u>\$5,914,777.46</u>	<u>\$5,834,567.61</u>

Investments of the university's endowment and similar funds are composed of the following:

	<u>Carrying Value June 30, 2003</u>	<u>Carrying Value June 30, 2002</u>
Mutual funds	\$ 2,041,979.21	\$ 1,998,426.43

Assets of endowments are pooled on a fair value basis, with each individual fund subscribing to or disposing of units on the basis of the fair value per unit at the beginning of the calendar month within which the transaction takes place. Of the 72,050.981 units at June 30, 2003, each having an average fair value of \$28.34, all units were owned by endowments. Of the total units at June 30, 2002, each having a fair value of \$27.65, all units were owned by endowments.

The following tabulations summarize changes in relationships between cost and fair values of the pooled assets:

<u>FY 2003</u>	<u>Pooled Assets</u>		<u>Net Gains (Losses)</u>	<u>Fair Value Per Unit</u>
	<u>Fair Value</u>	<u>Cost</u>		
End of year	\$2,041,979.21	\$1,800,000.00	\$241,979.21	\$28.34
Beginning of year	\$1,998,426.43	\$1,800,000.00	<u>\$198,426.43</u>	\$27.65
Unrealized net gains			<u>\$43,552.78</u>	\$0.69
Total net gains			<u>\$43,552.78</u>	

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The average annual earnings per unit, exclusive of net gains, were \$3.75 for the year.

<u>FY 2002</u>	<u>Pooled Assets</u>		<u>Net Gains</u>	<u>Fair Value</u>
	<u>Fair Value</u>	<u>Cost</u>	<u>(Losses)</u>	<u>Per Unit</u>
End of year	\$1,998,426.43	\$1,800,000.00	\$198,426.43	\$27.65
Beginning of year	\$2,189,914.74	\$1,800,000.00	<u>389,914.74</u>	28.08
Unrealized net loss			<u>(198,488.31)</u>	\$(0.43)
Total net loss			<u><u>\$(198,488.31)</u></u>	

The average annual earnings per unit, exclusive of net losses, were \$3.65 for the year.

**NOTE 5. RECEIVABLES**

Receivables included the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Student accounts receivable	\$ 2,587,113.71	\$ 2,621,967.63
Grants receivable	703,207.49	487,514.61
Notes receivable	49,894.79	32,033.38
Pledges receivable	1,904,732.84	25,811.70
State appropriation receivable	93,600.00	-
Other receivables	<u>274,093.41</u>	<u>827,612.76</u>
Subtotal	5,612,642.24	3,994,940.08
Less allowance for doubtful accounts	<u>(366,453.51)</u>	<u>(289,846.73)</u>
Total receivables	<u><u>\$ 5,246,188.73</u></u>	<u><u>\$ 3,705,093.35</u></u>

Pledges receivable are promises of private donations that are reported as accounts receivable and revenue, net of the estimated uncollectible allowance of \$71,374.35 at June 30, 2003, and \$25,525.03 at June 30, 2002.

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Federal Perkins Loan Program funds included the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Perkins loans receivable	\$ 1,794,757.51	\$ 1,791,558.64
Less allowance for doubtful accounts	<u>(396,803.52)</u>	<u>(342,085.24)</u>
Total	<u>\$ 1,397,953.99</u>	<u>\$ 1,449,473.40</u>

**NOTE 6. CAPITAL ASSETS**

Capital asset activity for the university for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,758,220.87	\$ 439,058.34	\$ -	\$ 117,712.60	\$ 3,079,566.61
Land improvements and infrastructure	4,577,658.72	-	-	-	4,577,658.72
Buildings	102,891,609.21	2,204,486.77	-	130,185.75	104,965,910.23
Equipment	8,201,450.13	654,034.07	-	29,327.26	8,826,156.94
Library holdings	4,720,462.91	568,818.48	-	383,591.35	4,905,690.04
Projects in progress	<u>4,465,351.98</u>	<u>10,657,341.63</u>	<u>-</u>	<u>-</u>	<u>15,122,693.61</u>
Total	<u>127,614,753.82</u>	<u>14,523,739.29</u>	<u>-</u>	<u>660,816.96</u>	<u>141,477,676.15</u>
Less accum. depreciation:					
Land improvements and infrastructure	3,279,424.38	122,487.67	-	-	3,401,912.05
Buildings	32,087,169.94	2,772,161.10	-	75,708.24	34,783,622.80
Equipment	5,691,416.85	892,968.74	-	-	6,584,385.59
Library holdings	<u>2,435,917.69</u>	<u>490,568.94</u>	<u>-</u>	<u>383,591.35</u>	<u>2,542,895.28</u>
Total accum. depreciation	<u>43,493,928.86</u>	<u>4,278,186.45</u>	<u>-</u>	<u>459,299.59</u>	<u>47,312,815.72</u>
Capital assets, net	<u>\$84,120,824.96</u>	<u>\$10,245,552.84</u>	<u>\$ -</u>	<u>\$ 201,517.37</u>	<u>\$ 94,164,860.43</u>

Capital asset activity for the university for the year ended June 30, 2002, was as follows:

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	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$ 2,756,256.17	\$ 1,964.70	\$ -	\$ -	\$ 2,758,220.87
Land improvements and infrastructure	4,501,245.65	76,413.07	-	-	4,577,658.72
Buildings	52,086,880.96	53,035,578.85	-	2,230,850.60	102,891,609.21
Equipment	7,357,430.90	939,299.53	100,693.37	195,973.67	8,201,450.13
Library holdings	19,037,494.00	547,862.39	-	14,864,893.48	4,720,462.91
Projects in progress	<u>51,210,910.46</u>	<u>1,312,344.62</u>	<u>-</u>	<u>48,057,903.10</u>	<u>4,465,351.98</u>
Total	<u>136,950,218.14</u>	<u>55,913,463.16</u>	<u>100,693.37</u>	<u>65,349,620.85</u>	<u>127,614,753.82</u>
Less accum. depreciation:					
Land improvements and infrastructure	3,145,700.73	133,723.65	-	-	3,279,424.38
Buildings	30,534,357.69	2,656,196.07	-	1,103,383.82	32,087,169.94
Equipment	5,061,432.00	629,984.85	-	-	5,691,416.85
Library holdings	<u>2,309,482.12</u>	<u>472,046.24</u>	<u>-</u>	<u>345,610.67</u>	<u>2,435,917.69</u>
Total accum. depreciation	<u>41,050,972.54</u>	<u>3,891,950.81</u>	<u>-</u>	<u>1,448,994.49</u>	<u>43,493,928.86</u>
Capital assets, net	<u>\$95,899,245.60</u>	<u>\$52,021,512.35</u>	<u>\$ 100,693.37</u>	<u>\$63,900,626.36</u>	<u>\$ 84,120,824.96</u>

**NOTE 7. LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended June 30, 2003, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$ 133,725.08	\$ -	\$ 42,555.12	\$ 91,169.96	\$ 45,009.46
Bonds	17,633,346.63	18,192.77	569,227.46	17,082,311.94	621,608.95
Commercial paper	<u>1,040,440.57</u>	<u>10,885,776.02</u>	<u>124,766.71</u>	<u>11,801,449.88</u>	<u>-</u>
Subtotal	<u>18,807,512.28</u>	<u>10,903,968.79</u>	<u>736,549.29</u>	<u>28,974,931.78</u>	<u>666,618.41</u>
Other liabilities:					
Compensated absences	1,429,588.09	805,738.64	807,797.68	1,427,529.05	371,728.56
Due to grantors	<u>1,721,718.55</u>	<u>-</u>	<u>237,023.56</u>	<u>1,484,694.99</u>	<u>112,423.47</u>
Subtotal	<u>3,151,306.64</u>	<u>805,738.64</u>	<u>1,044,821.24</u>	<u>2,912,224.04</u>	<u>484,152.03</u>
Total long-term liabilities	<u>\$21,958,818.92</u>	<u>\$11,709,707.43</u>	<u>\$1,781,370.53</u>	<u>\$31,887,155.82</u>	<u>\$1,150,770.44</u>

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Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Payables:					
Notes	\$ 174,305.86	\$ -	\$ 40,580.78	\$ 133,725.08	\$ 42,555.12
Bonds	3,300,854.22	14,666,771.88	334,279.47	17,633,346.63	569,227.50
Commercial paper	<u>12,420,049.95</u>	<u>2,875,304.16</u>	<u>14,254,913.54</u>	<u>1,040,440.57</u>	<u>-</u>
Subtotal	<u>15,895,210.03</u>	<u>17,542,076.04</u>	<u>14,629,773.79</u>	<u>18,807,512.28</u>	<u>611,782.62</u>
Other liabilities:					
Compensated absences	1,360,149.97	1,022,143.70	952,705.58	1,429,588.09	983,032.05
Due to grantors	<u>1,862,967.48</u>	<u>-</u>	<u>141,248.93</u>	<u>1,721,718.55</u>	<u>115,510.05</u>
Subtotal	<u>3,223,117.45</u>	<u>1,022,143.70</u>	<u>1,093,954.51</u>	<u>3,151,306.64</u>	<u>1,098,542.10</u>
Total long-term liabilities	<u>\$ 19,118,327.48</u>	<u>\$18,564,219.74</u>	<u>\$15,723,728.30</u>	<u>\$21,958,818.92</u>	<u>\$ 1,710,324.72</u>

**Notes Payable**

The Tennessee Board of Regents, on behalf of the university, borrowed funds to purchase Two Rivers Apartments. The note bears an annually adjusted interest rate that will be no less than 3.5% or no greater than 7.5%, a face amount of \$420,977, a minimum annual debt service of \$48,000, and a due date of August 1, 2005. The balance owed by the university was \$91,169.96 at June 30, 2003, and \$133,725.08 at June 30, 2002.

Debt service requirements to maturity for notes payable at June 30, 2003, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 45,009.46	\$ 2,990.54	\$ 48,000.00
2005	<u>46,160.50</u>	<u>1,049.26</u>	<u>47,209.76</u>
	<u>\$ 91,169.96</u>	<u>\$ 4,039.80</u>	<u>\$ 95,209.76</u>

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**Bonds Payable**

Bond issues, with interest rates ranging from 4% to 6.75% for Tennessee State School Bond Authority bonds are due serially to May 2032 and are secured by pledges of the facilities' revenues to which they relate and certain other revenues and fees of the university, including state appropriations. The bonded indebtedness with the Tennessee State School Bond Authority reported on the statement of net assets is shown net of assets held by the authority in the debt service reserve and unexpended debt proceeds. The reserve amount was \$364,803.34 at June 30, 2003, and \$364,803.34 at June 30, 2002. Unexpended debt proceeds were \$30,599.86 at June 30, 2003, and \$48,792.63 at June 30, 2002.

Debt service requirements to maturity for bonds payable at June 30, 2003, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2004	\$ 621,608.95	\$ 922,887.38	\$ 1,544,496.33
2005	591,341.04	891,471.74	1,482,812.78
2006	492,102.91	860,343.45	1,352,446.36
2007	517,846.51	834,628.90	1,352,475.41
2008	543,615.54	809,392.75	1,353,008.29
2009-2013	2,803,033.26	3,592,892.26	6,395,925.52
2014-2018	2,310,746.47	2,851,063.77	5,161,810.24
2019-2023	2,559,023.68	2,224,704.12	4,783,727.80
2024-2028	3,316,185.90	1,467,541.89	4,783,727.79
2029-2032	<u>3,326,807.68</u>	<u>469,574.73</u>	<u>3,796,382.41</u>
	<u>\$ 17,082,311.94</u>	<u>\$ 14,924,500.99</u>	<u>\$ 32,006,812.93</u>

**Commercial paper**

The Tennessee State School Bond Authority also authorized the issuance of commercial paper to finance the costs of various capital projects. The amount issued for projects at the university was \$11,801,449.88 at June 30, 2003, and \$1,040,440.57 at June 30, 2002.

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For the commercial paper program, the Tennessee State School Bond Authority maintains an interest rate reserve fund. The university contributes amounts to the reserve fund based on the amounts drawn. The principal of the reserve will be contributed to pay off notes or credited back to the university when the notes are converted to bonds. The interest earned on the reserve is used to pay interest due during the month.

**NOTE 8. UNRESTRICTED NET ASSETS**

Unrestricted net assets include funds that have been designated or reserved for specific purposes. The unrestricted net assets are composed of the following:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Working capital	\$ 2,336,451.92	\$ 3,545,544.72
Encumbrances	1,217,213.77	483,888.17
Designated fees	753,333.47	741,135.27
Auxiliaries	185,600.00	268,812.00
Plant construction	1,660,197.60	1,650,166.25
Renewal and replacement of equipment	11,425,968.25	7,329,612.75
Debt retirement	-	62,050.78
Unreserved/undesignated	<u>1,486,361.91</u>	<u>1,160,400.02</u>
Total	<u>\$ 19,065,126.92</u>	<u>\$ 15,241,609.96</u>

**NOTE 9. ENDOWMENTS**

If a donor has not provided specific instructions to the university, state law permits the university to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the university is required to consider the university's long-term and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic conditions. Any net appreciation spent is required to be spent for the purposes for which the endowment was established.

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The university chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the spending plan established by the university, 4 1/2 % annually has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending plan exceeds the investment income. At June 30, 2003, net appreciation of \$178,581.05 is available to be spent, of which \$178,581.05 is restricted to specific purposes.

**NOTE 10. PENSION PLANS**

**A. Defined Benefit Plans**

**Tennessee Consolidated Retirement System**

Plan Description - The university contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The university is required to contribute an actuarially determined rate. The current rate is 7.29% of annual covered payroll. Contribution requirements for the university are established and may be amended by the TCRS' Board of Trustees. The university's contributions to TCRS for the years ended June 30, 2003, 2002, and 2001 were \$1,004,576.83, \$861,167.24, and \$799,095.06. Contributions met the requirements for each year.

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**B. Defined Contribution Plans**

**Optional Retirement Plans (ORP)**

Plan Description - The university contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The university contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the university to the plans was \$1,530,840.90 for the year ended June 30, 2003, and \$1,507,844.30 for the year ended June 30, 2002. Contributions met the requirements for each year.

**NOTE 11. OTHER POST-EMPLOYMENT BENEFITS**

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible university retirees. This benefit is provided and administered by the State of Tennessee. The university assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

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**NOTE 12. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE**

During the year ended June 30, 2002, the university implemented GASB Statement 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management’s Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the university was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) adoption of depreciation on capital assets; (3) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted; and (4) reclassification of the U.S. government grants refundable amount as a liability.

Adoption of capitalization criteria for buildings and additions	\$(17,329,565.75)
Adoption of depreciation on capital assets	\$(41,050,972.54)
Deferred revenue recognition	\$ 379,586.47
Reclassification of U.S. government grants refundable	\$ (1,220,399.44)

**NOTE 13. INSURANCE-RELATED ACTIVITIES**

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state’s officials and employees. In the past three fiscal years, the state has had no claims filed with the commercial insurer. A designation for incurred losses in the amount of \$3.271 million at June 30, 2003, was established in the state’s general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2003, the scheduled coverage for the university was \$155,735,500 for buildings and \$39,434,700 for contents. At June 30, 2002, the scheduled coverage for the university was \$152,413,600 for buildings and \$41,775,200 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers’ compensation. The university participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by

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charging a premium to the university based on a percentage of the university's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the university participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the university for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The university participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the university based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

**NOTE 14. COMMITMENTS AND CONTINGENCIES**

Sick Leave - The university records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$11,515,616.79 at June 30, 2003, and \$11,378,332.39 at June 30, 2002.

Operating Leases - The university has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenses under operating leases for real property were \$30,800.00 for the year ended June 30, 2003. Comparative amount for the year ended June 30, 2002, was \$52,200.00. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2003, outstanding commitments under construction contracts totaled \$1,533,071.55 for Science Building, University Center,

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Tornado Repairs, Housing Infrastructure Upgrade, Dunn Center Brick Replacements, and Reroof Several Buildings projects, of which \$1,162,197.54 will be funded by future state capital outlay appropriations.

Litigation - The university is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

**NOTE 15. CHAIRS OF EXCELLENCE**

The university had \$7,267,362.50 on deposit at June 30, 2003, and \$6,977,512.20 on deposit at June 30, 2002, with the State Treasurer for the university's Chairs of Excellence program. These funds are held in trust by the state and are not included in the financial statements.

**NOTE 16. FUNDS HELD IN TRUST BY OTHERS**

The university is a beneficiary under the Gracey trust. The underlying assets are not considered assets of the university and are not included in the university's financial statements. The university received \$90,584 from these funds during the year ended June 30, 2003, and \$80,708.17 during the year ended June 30, 2002.

**NOTE 17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

The university's operating expenses by functional classification for the year ended June 30, 2003, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$18,797,666.69	\$ 4,494,036.71	\$ 2,131,970.78	\$ 311,982.64	\$ -	\$25,735,656.82
Research	901,385.94	174,605.33	334,012.72	27,415.40	-	1,437,419.39
Public service	968,557.67	257,732.01	351,349.41	35,634.95	-	1,613,274.04
Academic support	2,896,942.98	777,165.92	1,118,629.25	80,560.39	-	4,873,298.54
Student services	4,001,799.60	1,157,947.73	2,695,029.73	772,725.36	-	8,627,502.42

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Institutional support	3,239,951.67	946,135.39	1,108,877.27	18,985.79	-	5,313,950.12
Operation & maint.	2,021,063.07	725,335.95	4,952,957.47	-	-	7,699,356.49
Scholar. & fellow.	-	-	408.59	4,716,698.76	-	4,717,107.35
Auxiliary	417,339.42	77,561.14	1,580,711.57	75,762.98	-	2,151,375.11
Depreciation	-	-	-	-	3,818,886.86	3,818,886.86
Total	<u>\$33,244,707.04</u>	<u>\$8,610,520.18</u>	<u>\$14,273,946.79</u>	<u>\$6,039,766.27</u>	<u>\$3,818,886.86</u>	<u>\$65,987,827.14</u>

The university's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Other Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$18,184,882.98	\$ 4,122,645.08	\$ 3,873,721.08	\$ 262,396.74	\$ -	\$26,443,645.88
Research	1,052,852.96	193,227.80	349,759.06	25,192.03	-	1,621,031.85
Public service	966,488.60	233,504.26	388,326.96	22,611.07	-	1,610,930.89
Academic support	3,107,379.69	796,629.68	106,813.35	92,180.19	-	4,103,002.91
Student services	3,828,203.03	1,004,044.55	2,730,168.95	412,202.57	-	7,974,619.10
Institutional support	3,144,175.02	767,712.96	1,128,954.88	18,217.55	-	5,059,060.41
Operation & maint.	2,215,932.92	709,902.43	6,305,393.28	448.66	-	9,231,677.29
Scholar. & fellow.	-	-	(8,965.33)	4,048,252.21	-	4,039,286.88
Auxiliary	574,492.79	104,495.00	3,274,546.35	57,586.50	-	4,011,120.64
Depreciation	-	-	-	-	2,452,911.42	2,442,936.32
Total	<u>\$33,074,407.99</u>	<u>\$7,932,161.76</u>	<u>\$18,148,718.58</u>	<u>\$4,939,087.52</u>	<u>\$2,452,911.42</u>	<u>\$66,547,287.27</u>

**NOTE 18. PRIOR-YEAR RESTATEMENT**

Due to changes in presentation made by the university for the year ended June 30, 2003, some reclassifications were made in the prior-year financial statements for comparative purposes. The LGIP deposit – capital projects was reclassified as noncurrent cash. Unexpended bond proceeds, which were previously shown as deposits held by the state, were reclassified as reductions to long-term liabilities. The note disclosure for long-term liabilities was changed to reflect this reclassification. Also, the note disclosure for unrestricted net assets was changed to show all of the components rather than just the designated amounts.